

Service Date: December 31, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER of the Application	)	UTILITY DIVISION
of the Mountain Water Company for	)	
Authority to Increases Rates and Charges	)	DOCKET NO. D96.6.97
for Water Service to its Superior Division	)	ORDER NO. 5923a

**INTERIM RATE ORDER**

**FINDINGS OF FACT**

1. On June 5, 1996 the Montana Public Service Commission (Commission) received an application from Mountain Water Company (Mountain Water) for authority to increase rates and charges for water service in its Superior Division serving Superior, Montana. Mountain Water computes its revenue requirements for test year 1995 to be \$265,026, compared with revenues at present rates of \$159,174. The total requested increase is for \$105,852 in annual revenues, or a 109.5226 percent increase.

2. The Montana Consumer Counsel (MCC) intervened on behalf of ratepayers.

3. Concurrent with this filing for a permanent increase in rates, Mountain Water filed an application for interim rate relief. Mountain Water requested an interim increase in rates of 24.932 percent, equaling a revenue increase of \$39,935.

4. The interim rate request includes a significant increase in booked expenses of the utility and additional adjustments not accepted in previous Commission orders. Among these adjustments are projected insurance cost increases, increased main office expenses, and power cost increases attributed to Montana Power rate increase.

5. On November 8, 1996 Mountain Water and (MCC) filed a Stipulation, followed by a Motion from Mountain Water, which requested that the Commission grant an interim increase of \$42,275, which would not include post test year plant additions. Mountain Water has been working on a service improvement program in consultation with the City of Superior.

Because of design changes Mountain Water experienced substantial delays in obtaining the necessary approvals for construction of the post test year plant additions from the Montana Department of Environmental Quality and the Forest Service. Mountain Water also requested that the hearing date of December 18, 1996 be vacated to allow consideration of the post test year plant additions after completion, as soon after February 6, 1997 as possible.

6. On November 15, 1996 the Commission issued a Notice of Stipulation and Opportunity to Comment, and published the Notice in the Missoulian, Missoula, Montana, and the Mineral Independent, Superior, Montana. The Commission did not receive any comments.

7. The Commission in considering a request for an interim rate increase is guided by generally established principles of utility rate regulation. Pursuant to ARM 38.5.506, the Commission normalizes and annualizes test year booked financial information. The Commission then makes adjustments determined in the last general rate order of the utility, using the methodology and rate of return on equity from that order, applied to the test year amounts. The Commission, in its discretion, may waive these rules (ARM 38.5.508).

8. Mountain Water amended its interim rate increase request as a result of corrections to the original application for the Superior Division and adjustments made in its Missoula Division. The Commission accepted the Stipulation of the Company, the Montana Consumer Counsel and the City of Missoula in Docket No. D96.4.61 for Mountain Water, Missoula Division, in Order Approving Stipulation and Settlement, Order No. 5910d. Mountain Water now proposes an interim increase in rates of 26.505 percent, for a revenue increase of \$42,275, or \$2,340 above the original interim rate increase request.

9. For interim purposes Mountain Water requests that the Commission authorize an overall rate of return of 10.407 percent. This rate of return recognizes Mountain Water's most recent cost of debt capital of 9.07 percent and a cost of equity of 11.5 percent.

10. Mountain Water's operations (Superior Division) for the test period produced an overall rate of return of 2.491 percent, applying the interim rate relief criteria of ARM 38.5.506 to the amended request. The following schedule compares the present rate of return with an overall rate of return allowed for interim purposes of 10.407:

**SCHEDULE**

	At Present <u>Rates</u>	At Proposed <u>Rates</u>
<b>Revenues</b>	\$159,496	\$201,771
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Dollar Increase		42,275
Percentage Increase		26.505%
<b>Expenses</b>		
O&M Expense	110,465	110,611
Depreciation & Amort.	18,583	18,583
Taxes Other Than Income	18,384	18,493
Incomes Taxes	3,865	3,830
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<b>Total Deductions</b>	151,296	167,516
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Operating Income	<u>\$ 8,200</u>	<u>\$ 34,255</u>
Rate Base	<u>\$329,152</u>	<u>\$329,152</u>
Return on Rate Base	2.491%	10.407%

11. The Commission finds that the difference between what Mountain Water earns and what it is entitled to earn constitutes an income deficiency. Deferring rate relief pending a final order may adversely affect the utility's financial condition. Further, under current ratemaking standards, the utility may be entitled to rate relief at the time a final order is issued in this proceeding. The Commission finds that Mountain Water is entitled to interim rate relief of \$42,275 on an annual basis.

12. Mountain Water requests that the 26.505 percent increase be implemented using the rate design requested in the original application. Mountain Water suggests that a flat increase would create unnecessary rate fluctuations. Mountain Water proposes that Flat Rates, other than irrigation, would increase 47.8308 percent, with irrigation remaining unchanged, for an overall

increase to flat rate revenues of 32.3132 percent. Overall, metered rates would increase 14.8944 percent while Public Fire Protection would remain unchanged. Mountain Water also proposes that a new tariff be established for Private Fire Protection Service and that the low income discount will remain unchanged. The Commission finds Mountain Water's request to be reasonable.

### **CONCLUSIONS OF LAW**

1. The Mountain Water Company is a public utility furnishing water service to customers in the Superior, Montana area. As such, it is subject to the supervision, regulation and control of this Commission pursuant to Title 69, Chapter 3, Montana Code Annotated (MCA).
2. Section 69-3-304, MCA, provides in part, "The Commission may in its discretion, temporarily approve increases pending a hearing or final decision."
3. The Commission concludes that the grant of an interim rate increase as set forth is just, reasonable and within the discretion granted by § 69-3-304, MCA.

### **ORDER**

NOW THEREFORE, IT IS ORDERED THAT:

1. Mountain Water Company is hereby granted authority to implement on an interim basis increased rates for its Superior, Montana customers, designed to generate additional annual revenues in the amount of \$42,275.
2. Mountain Water Company shall file revised tariff schedules to all services, except public fire protection customers. Mountain Water will establish a new tariff for Private Fire Protection Service, and the low income discount will remain unchanged.
3. The increase granted herein is subject to rebate should the final order in this Docket determine that a lesser increase is warranted. Such rebate would include interest at 12.0 percent per annum.
4. The interim relief granted in this Order is to be effective for services rendered on and after December 23, 1996.

DONE IN OPEN SESSION AT HELENA, MONTANA THIS 23rd day of December, 1996 by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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NANCY MCCAFFREE, Chair

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DAVE FISHER, Vice Chair

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BOB ANDERSON, Commissioner

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DANNY OBERG, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.